

The Peoples Gas Light and Coke Company

Summary of Proposed Adjustments to Operating Income
For the Test Year Ending December 31, 2013

| Schedule C-4 rebuttal updates -NS-PGL Ex. 26.2P, WP-1 to WP-20 | | | | | | | | | | | |
|--|-----------------|---|--------------------------|---|---------------------------------------|---|---|--|--|--|--|
| Line No. | I.C.C. Acc. No. | Description | NonUnion Wages JMO 16.03 | Test 2013 O&M SFIO Consulting JMO 21.01 | Cost to Achieve amortization JMO 6.04 | Update IBS return on investment AG 8.19 | Lobbying Expense Classification JMO 4.01, 4.04 & 4.06 | Update O&M Pension & Benefits NS-PGL Ex. 31.1P | IBS AB2 adjust consulting costs AG 12.16 | IBS A59 adjust software costs AG 12.12 | Subtotal Operating Statement Adjustments |
| | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] |
| 1 | 480-481, 489 | Base Rate Revenues excludes Base Rate adjustments | | | | | | | | | - |
| 2 | 480-481, 489 | Uncollectible Expense Adjustment Revenues | | | | | | | | | - |
| 3 | 480-481, 489 | Volume Balancing Adjustment Revenues | | | | | | | | | - |
| 4 | 480-481, 489 | Franchise Cost Adjustment Revenues | | | | | | | | | - |
| 5 | | Base Rate Revenues | - | - | - | - | - | - | - | - | - |
| 6 | 480-481, 489 | PGA Revenues | | | | | | | | | - |
| 7 | 480-481, 489 | Coaltar Revenues | | | | | | | | | - |
| 8 | 480-481, 489 | Enhanced Energy Program Revenues | | | | | | | | | - |
| 9 | | Pass Through Service Revenues | - | - | - | - | - | - | - | - | - |
| 10 | 487, 488, 495 | Other Revenues | - | - | - | | | - | - | - | - |
| 11 | 400 | Operating Revenues | - | - | - | - | - | - | - | - | - |
| 12 | | Operating Expenses | | | | | | | | | - |
| 13 | 401 | Cost of Gas | | | | | | | | | - |
| 14 | 401 & 402 | Other Operation and Maintenance | | | | | | | | | - |
| 15 | 401 & 402 | Other Production | (3,000) | | | | | | | | (3,000) |
| 16 | 401 & 402 | Storage | (11,000) | | | | | | - | | (11,000) |
| 17 | 401 & 402 | Transmission | (4,000) | | | | | | - | | (4,000) |
| 18 | 401 & 402 | Distribution | (150,000) | | | | | | - | | (150,000) |
| 19 | 401 | Customer Accounts -Uncollectible Account | | | - | - | | | | | - |
| 20 | 401 | Customer Accounts-Other | (41,000) | - | - | - | | | | (138,000) | (179,000) |
| 21 | 401 | Customer Service and Informational Services | (5,000) | | | | | | | | (5,000) |
| 22 | 401 | Sales | | | | | | | | | - |
| 23 | 401 & 402 | Administrative and General | (72,000) | 44,000 | 707,000 | (279,000) | (42,000) | 7,201,000 | (138,000) | - | 7,421,000 |
| 24 | | Total Other Operations and Maintenance | (286,000) | 44,000 | 707,000 | (279,000) | (42,000) | 7,201,000 | (138,000) | (138,000) | 7,069,000 |
| 25 | 403 | Depreciation | - | - | - | - | - | - | - | - | - |
| 26 | 404 | Amortization | | | | | | | | | - |
| 27 | 408.1 | Taxes Other than Income | (23,000) | - | - | - | - | - | - | - | (23,000) |
| 28 | | Income Taxes | | | | | | | | | - |
| 29 | 409.1 | Federal Income Taxes - Current | 98,000 | (14,000) | (224,000) | 88,000 | 13,000 | 267,000 | 44,000 | 44,000 | 316,000 |
| 30 | 409.1 | State Income Taxes - Current | 29,000 | (4,000) | (67,000) | 27,000 | 4,000 | 80,000 | 13,000 | 13,000 | 95,000 |
| 31 | 410.1 & 411.1 | Deferred Income Taxes | - | - | - | - | - | (3,193,000) | - | - | (3,193,000) |
| 32 | 411.4 | Investment Tax Credit | - | - | - | - | - | - | - | - | - |
| 33 | | Total Operating Expenses | (182,000) | 26,000 | 416,000 | (164,000) | (25,000) | 4,355,000 | (81,000) | (81,000) | 4,264,000 |
| 34 | | Net Operating Income | \$ 182,000 | \$ (26,000) | \$ (416,000) | \$ 164,000 | \$ 25,000 | \$ (4,355,000) | \$ 81,000 | \$ 81,000 | \$ (4,264,000) |

The Peoples Gas Light and Coke Company

Summary of Proposed Adjustments to Operating Income
For the Test Year Ending December 31, 2013

| Schedule C-4 rebuttal updates - NS-PGL Ex. 26.2P, WP-1 to WP-20 | | | | | | | | | | | |
|---|-----------------|---|--|--|--|---|-----------------|---|---|--|--|
| Line No. | I.C.C. Acc. No. | Description | Subtotal Operating Statement Adjustments | Prior cases-incentive comp-capitalized ICC Staff Ex. 3.02P | Update CapEx-Benefits Depreciation Expense | Invested Capital Tax update NS-PGL Ex. 30.0 | O&M AMI Project | Depreciation Expense Update CapEx-AMI, LNG Projects | Income Tax Impact Capitalized AMRP Repairs/Overhead NS-PGL Ex. 30.0 | Income Tax impact from Interest Expense Change in Debt | Subtotal Operating Statement Adjustments |
| | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] |
| 1 | 480-481, 489 | Base Rate Revenues excludes Base Rate adjustments | - | | | | | | | | - |
| 2 | 480-481, 489 | Uncollectible Expense Adjustment Revenues | - | | | | | | | | - |
| 3 | 480-481, 489 | Volume Balancing Adjustment Revenues | - | | | | | | | | - |
| 4 | 480-481, 489 | Franchise Cost Adjustment Revenues | - | | | | | | | | - |
| 5 | | Base Rate Revenues | - | - | - | - | - | - | - | - | - |
| 6 | 480-481, 489 | PGA Revenues | - | | | | | | | | - |
| 7 | 480-481, 489 | Coaltar Revenues | - | | | | | | | | - |
| 8 | 480-481, 489 | Enhanced Energy Program Revenues | - | | | | | | | | - |
| 9 | | Pass Through Service Revenues | - | - | - | - | - | - | - | - | - |
| 10 | 487, 488, 495 | Other Revenues | - | - | - | | | - | - | - | - |
| 11 | 400 | Operating Revenues | - | - | - | - | - | - | - | - | - |
| 12 | | Operating Expenses | | | | | | | | | - |
| 13 | 401 | Cost of Gas | - | | | | | | | | - |
| 14 | 401 & 402 | Other Operation and Maintenance | - | | | | | | | | - |
| 15 | 401 & 402 | Other Production | (3,000) | | | | | | | | (3,000) |
| 16 | 401 & 402 | Storage | (11,000) | | | | | | - | | (11,000) |
| 17 | 401 & 402 | Transmission | (4,000) | | | | | | - | | (4,000) |
| 18 | 401 & 402 | Distribution | (150,000) | | | | | | - | | (150,000) |
| 19 | 401 | Customer Accounts -Uncollectible Account | - | | | - | | | | | - |
| 20 | 401 | Customer Accounts-Other | (179,000) | - | | - | | | | | (179,000) |
| 21 | 401 | Customer Service and Informational Services | (5,000) | | | | | | | | (5,000) |
| 22 | 401 | Sales | - | | | | | | | | - |
| 23 | 401 & 402 | Administrative and General | 7,421,000 | - | - | - | 333,000 | - | - | - | 7,754,000 |
| 24 | | Total Other Operations and Maintenance | 7,069,000 | - | - | - | 333,000 | - | - | - | 7,402,000 |
| 25 | 403 | Depreciation | - | (37,000) | 35,000 | - | - | (181,000) | - | - | (183,000) |
| 26 | 404 | Amortization | - | | | | | | | | - |
| 27 | 408.1 | Taxes Other than Income | (23,000) | - | - | (1,217,000) | - | - | | - | (1,240,000) |
| 28 | | Income Taxes | - | | | | | | | | - |
| 29 | 409.1 | Federal Income Taxes - Current | 316,000 | 12,000 | (34,000) | 385,000 | (105,000) | 214,000 | 23,021,000 | 178,000 | 23,987,000 |
| 30 | 409.1 | State Income Taxes - Current | 95,000 | 4,000 | (10,000) | 116,000 | (32,000) | 64,000 | 6,613,000 | 53,000 | 6,903,000 |
| 31 | 410.1 & 411.1 | Deferred Income Taxes | (3,193,000) | - | 30,000 | - | - | (204,000) | (29,634,000) | - | (33,001,000) |
| 32 | 411.4 | Investment Tax Credit | - | - | - | - | - | - | - | - | - |
| 33 | | Total Operating Expenses | 4,264,000 | (21,000) | 21,000 | (716,000) | 196,000 | (107,000) | - | 231,000 | 3,868,000 |
| 34 | | Net Operating Income | \$ (4,264,000) | \$ 21,000 | \$ (21,000) | \$ 716,000 | \$ (196,000) | \$ 107,000 | \$ - | \$ (231,000) | \$ (3,868,000) |

The Peoples Gas Light and Coke Company

Summary of Proposed Adjustments to Operating Income
For the Test Year Ending December 31, 2013

| Line No. | I.C.C. Acc. No. | Description | Subtotal Operating Statement Adjustments | Sch C-4 rebuttal updates rounding NS-PGL Ex. 26.2P WP | Acct 920 Incentive Compensation Omnibus ICC Staff Ex.3.02P,p3 | Acct 921 Social & Service Dues ICC Ex. 3.04P, p1 | Accts 880/921 Social & Service Dues-Lobby portion ICC Ex. 3.05P p2, In 6 | Executive Perquisites JMO 1.13 | Acct 921 Employee/Retiree Perquisites Wassau Lodge BAP 18.01 | Acct 923 Consulting Expense (SIG) JMO 24.01 | Subtotal Operating Statement Adjustments |
|----------|-----------------|---|--|---|---|--|--|--------------------------------|--|---|--|
| | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] |
| 1 | 480-481, 489 | Base Rate Revenues excludes Base Rate adjustments | - | | | | | | | | - |
| 2 | 480-481, 489 | Uncollectible Expense Adjustment Revenues | - | | | | | | | | - |
| 3 | 480-481, 489 | Volume Balancing Adjustment Revenues | - | | | | | | | | - |
| 4 | 480-481, 489 | Franchise Cost Adjustment Revenues | - | | | | | | | | - |
| 5 | | Base Rate Revenues | - | - | - | - | - | - | - | - | - |
| 6 | 480-481, 489 | PGA Revenues | - | | | | | | | | - |
| 7 | 480-481, 489 | Coaltar Revenues | - | | | | | | | | - |
| 8 | 480-481, 489 | Enhanced Energy Program Revenues | - | | | | | | | | - |
| 9 | | Pass Through Service Revenues | - | - | - | - | - | - | - | - | - |
| 10 | 487, 488, 495 | Other Revenues | - | - | - | | | - | - | - | - |
| 11 | 400 | Operating Revenues | - | - | - | - | - | - | - | - | - |
| 12 | | Operating Expenses | | | | | | | | | - |
| 13 | 401 | Cost of Gas | - | | | | | | | | - |
| 14 | 401 & 402 | Other Operation and Maintenance | - | | | | | | | | - |
| 15 | 401 & 402 | Other Production | (3,000) | | | | | | | | (3,000) |
| 16 | 401 & 402 | Storage | (11,000) | | | | | | - | | (11,000) |
| 17 | 401 & 402 | Transmission | (4,000) | | | | | | - | | (4,000) |
| 18 | 401 & 402 | Distribution | (150,000) | | | | (4,000) | | - | | (154,000) |
| 19 | 401 | Customer Accounts -Uncollectible Account | - | | - | - | | | | | - |
| 20 | 401 | Customer Accounts-Other | (179,000) | - | - | - | | | | | (179,000) |
| 21 | 401 | Customer Service and Informational Services | (5,000) | | | | | | | | (5,000) |
| 22 | 401 | Sales | - | | | | | | | | - |
| 23 | 401 & 402 | Administrative and General | 7,754,000 | (1,000) | (1,240,000) | (52,000) | (2,000) | (64,000) | (2,000) | (79,000) | 6,314,000 |
| 24 | | Total Other Operations and Maintenance | 7,402,000 | (1,000) | (1,240,000) | (52,000) | (6,000) | (64,000) | (2,000) | (79,000) | 5,958,000 |
| 25 | 403 | Depreciation | (183,000) | - | - | - | - | - | - | - | (183,000) |
| 26 | 404 | Amortization | - | | | | | | | | - |
| 27 | 408.1 | Taxes Other than Income | (1,240,000) | - | - | - | - | - | | - | (1,240,000) |
| 28 | | Income Taxes | - | | | | | | | | - |
| 29 | 409.1 | Federal Income Taxes - Current | 23,987,000 | - | 393,000 | 16,000 | 2,000 | 20,000 | 1,000 | 25,000 | 24,444,000 |
| 30 | 409.1 | State Income Taxes - Current | 6,903,000 | 1,000 | 118,000 | 5,000 | 1,000 | 6,000 | - | 8,000 | 7,042,000 |
| 31 | 410.1 & 411.1 | Deferred Income Taxes | (33,001,000) | - | - | - | - | - | - | - | (33,001,000) |
| 32 | 411.4 | Investment Tax Credit | - | - | - | - | - | - | - | - | - |
| 33 | | Total Operating Expenses | 3,868,000 | - | (729,000) | (31,000) | (3,000) | (38,000) | (1,000) | (46,000) | 3,020,000 |
| 34 | | Net Operating Income | \$ (3,868,000) | \$ - | \$ 729,000 | \$ 31,000 | \$ 3,000 | \$ 38,000 | \$ 1,000 | \$ 46,000 | \$ (3,020,000) |
| | | | | | | | Acct 880 (\$4,000) Acct 921 (\$2,000) | | | | |

The Peoples Gas Light & Coke Company

Summary of Proposed Adjustments to Operating Income
For the Test Year Ending December 31, 2013

| Line No. | I.C.C. Acc. No. | Description | Subtotal Operating Statement Adjustments | Accts 909/930.1 Advertising Expenses NS-PGL Ex. 26.2P, WP-17 | Acct 930.20 Institutional Events NS-PGL Ex. 26.2P, WP-18 | Executive Plan-Incentive Compensation ICC Staff Ex. 3.02P, p2 | Acct 928 Rate Case Amortization Test 2013 NS-PGL Ex. 26.5P | Acct 928 Rate Case Amortization 2011 rehear/appeal** NS-PGL Ex. 26.5P | Incremental Invested Capital Tax Adjustment NS-PGL Ex. 26.2P, p5 | Incremental Interest Synchronization Adjustment NS-PGL Ex. 26.2P, p6 | Total Operating Statement Adjustments |
|----------|-----------------|---|--|--|--|---|--|---|--|--|---------------------------------------|
| | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] |
| 1 | 480-481, 489 | Base Rate Revenues excludes Base Rate adjustments | - | | | | | | | | - |
| 2 | 480-481, 489 | Uncollectible Expense Adjustment Revenues | - | | | | | | | | - |
| 3 | 480-481, 489 | Volume Balancing Adjustment Revenues | - | | | | | | | | - |
| 4 | 480-481, 489 | Franchise Cost Adjustment Revenues | - | | | | | | | | - |
| 5 | | Base Rate Revenues | - | - | - | - | - | - | - | - | - |
| 6 | 480-481, 489 | PGA Revenues | - | | | | | | | | - |
| 7 | 480-481, 489 | Coaltar Revenues | - | | | | | | | | - |
| 8 | 480-481, 489 | Enhanced Energy Program Revenues | - | | | | | | | | - |
| 9 | | Pass Through Service Revenues | - | - | - | - | - | - | - | - | - |
| 10 | 487, 488, 495 | Other Revenues | - | - | - | | | - | - | - | - |
| 11 | 400 | Operating Revenues | - | - | - | - | - | - | - | - | - |
| 12 | | Operating Expenses | | | | | | | | | - |
| 13 | 401 | Cost of Gas | - | | | | | | | | - |
| 14 | 401 & 402 | Other Operation and Maintenance | - | | | | | | | | - |
| 15 | 401 & 402 | Other Production | (3,000) | | | | | | | | (3,000) |
| 16 | 401 & 402 | Storage | (11,000) | | | | | | - | | (11,000) |
| 17 | 401 & 402 | Transmission | (4,000) | | | | | | - | | (4,000) |
| 18 | 401 & 402 | Distribution | (154,000) | | | | | | - | | (154,000) |
| 19 | 401 | Customer Accounts -Uncollectible Account | - | | - | - | | | | | - |
| 20 | 401 | Customer Accounts-Other | (179,000) | - | - | - | | | | | (179,000) |
| 21 | 401 | Customer Service and Informational Services | (5,000) | (15,000) | | | | | | | (20,000) |
| 22 | 401 | Sales | - | | | | | | | | - |
| 23 | 401 & 402 | Administrative and General | 6,314,000 | (28,000) | (121,000) | (3,851,000) | (22,000) | - | - | - | 2,292,000 |
| 24 | | Total Other Operations and Maintenance | 5,958,000 | (43,000) | (121,000) | (3,851,000) | (22,000) | - | - | - | 1,921,000 |
| 25 | 403 | Depreciation | (183,000) | - | - | - | - | - | - | - | (183,000) |
| 26 | 404 | Amortization | - | | | | | | | | - |
| 27 | 408.1 | Taxes Other than Income | (1,240,000) | - | - | - | - | - | \$19,000 | - | (1,221,000) |
| 28 | | Income Taxes | - | | | | | | | | - |
| 29 | 409.1 | Federal Income Taxes - Current | 24,444,000 | 14,000 | 39,000 | 1,220,000 | 7,000 | - | (6,000) | (216,000) | 25,502,000 |
| 30 | 409.1 | State Income Taxes - Current | 7,042,000 | 4,000 | 11,000 | 366,000 | 2,000 | - | (2,000) | (65,000) | 7,358,000 |
| 31 | 410.1 & 411.1 | Deferred Income Taxes | (33,001,000) | - | - | - | - | - | - | - | (33,001,000) |
| 32 | 411.4 | Investment Tax Credit | - | - | - | - | - | - | - | - | - |
| 33 | | Total Operating Expenses | 3,020,000 | (25,000) | (71,000) | (2,265,000) | (13,000) | - | 11,000 | (281,000) | 376,000 |
| 34 | | Net Operating Income | \$ (3,020,000) | \$ 25,000 | \$ 71,000 | \$ 2,265,000 | \$ 13,000 | \$ - | \$ (11,000) | \$ 281,000 | \$ (376,000) |

**Note: Company agreed to make adjustment. Amount of adjustment was under \$100. When rounded to nearest \$1, 000, reflected as zero (\$ -)

| <u>Ratemaking adjustment</u> | | | | Update | Company Supplemental NS-PGL Ex. 18.2P | Change |
|--|----------|---------|--------------|--------------------------------|--|--------------|
| RATE BASE | Year End | 2013 | Schedule B-1 | \$1,628,796,000 | \$1,599,599,000 | \$29,197,000 |
| RATE OF RETURN | | | Schedule D-1 | 7.48% | 7.49% | |
| NET OPERATING INCOME REQUIREMENT | | | | 121,834,000 | 119,810,000 | 2,024,000 |
| PRO FORMA OPERATING INCOME AT PRESENT RATES | | | | 60,801,000 | 61,177,000 | (376,000) |
| ADJUST: OPERATING INCOME ADJUSTMENT- INVESTED CAPITAL TAX | | | | 11,000 | 67,000 | (56,000) |
| | | | | 60,812,000 | 61,244,000 | (432,000) |
| NET OPERATING INCOME REQUIREMENT CALCULATED IN FIRST PASS: | | | | \$61,022,000 | \$58,566,000 | \$2,456,000 |
| | | | | | | |
| OPERATING EXPENSES | | | | | | |
| Invested Capital Tax | (| 0.8%) | | \$488,000 | \$469,000 | \$19,000 |
| Income Taxes - State | (| 9.5%) | | | | (\$2,000) |
| - Federal | (| 35.0%) | | | | (\$6,000) |
| Total Operating Expenses | | | | | | 11,000 |
| | | | | | | |
| EFFECT ON OPERATING INCOME | | | | Direct supplemental adjustment | | (\$11,000) |

| | | | Update | Company Supplemental NS-PGL Ex.18.2P | Change |
|--|---|---|-----------------|---|--------------|
| <u>Ratemaking adjustment</u> | | | | | |
| RATE BASE | | Schedule B-1 | \$1,628,796,000 | \$1,599,599,000 | \$29,197,000 |
| AGGREGATED COST OF SHORT TERM & LONG-TERM DEBT | | Schedule D-1 | 2.06% | 2.09% | |
| SYNCHRONIZED INTEREST | | Schedule C-5.4 | 33,553,000 | 33,432,000 | 121,000 |
| LESS: FORECASTED INTEREST AS ADJUSTED | Account 427 | Interest on Long-Term Debt | 26,457,000 | 26,790,000 | (333,000) |
| | Account 428 | Amortization of Debt Discount and Expense | 714,000 | 752,000 | (38,000) |
| | Account 428.1 | Amortization of Loss on Reacquired Debt | 602,000 | 602,000 | - |
| | Account 430 | Interest Expense on Short-Term Debt -Associated Companies | 223,000 | 223,000 | - |
| | Account 430 | Amortization of Credit Line Fees | 476,000 | 476,000 | - |
| | Account 431 | Other Interest Expense-Short Term Borrowing | 521,000 | 712,000 | (191,000) |
| | Total Interest Expense on Short-Term and Long-Term Debt | | 28,993,000 | 29,555,000 | (562,000) |
| INCREASE IN INTEREST EXPENSE | | | \$4,560,000 | \$3,877,000 | \$683,000 |
| OPERATING EXPENSES | | | | | |
| Income Taxes | - State | (9.5%) | (\$433,000) | (\$368,000) | (\$65,000) |
| | - Federal | (35.0%) | (1,444,000) | (1,228,000) | (216,000) |
| | Total Operating Expenses | | (1,877,000) | (1,596,000) | (281,000) |
| EFFECT ON OPERATING INCOME | | Direct supplemental adjustment | \$1,877,000 | \$1,596,000 | \$281,000 |